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SUBJECT: ROKG FOREIGN AND UNIFICATION MINISTERS ON
SOUTH-NORTH IMPASSE

Classified By: Ambassador Kathleen D. Stephens. Reasons 1.4(b/d).

¶1. (C) SUMMARY: Foreign Minister Yu Myung-hwan told the Ambassador in a December 4 meeting that he did not know whether the DPRK would take further steps that would result in the complete closure of the Kaesong Industrial Complex, but that the ROKG was ready for that eventuality. The Foreign Minister said the ROKG would not budge from President Lee Myung-bak's position of offering dialogue while not conceding on fundamental principles, and that, in any case, there was not much the ROKG could do to dissuade the North from its current course. On December 5, Minister of Unification Kim Ha-joong echoed the Foreign Minister's resolve that the ROKG would not compromise its principles but was more optimistic that the DPRK would allow KIC operations to continue. Kim emphasized the importance of the U.S. and the ROK presenting a unified front. END SUMMARY.

FOREIGN MINISTER ON "PSYCHOLOGICAL WAR"

¶2. (C) During a December 4 one-hour one-on-one meeting with the Ambassador, Foreign Minister Yu Myung-hwan reinforced what we have heard recently from a range of ROKG officials and members of the National Assembly: The ROKG does not know whether the DPRK will close completely the Kaesong Industrial Complex (KIC), but the ROKG is prepared for that eventuality. The ROKG had a budget of some USD 700 million in unused appropriated funds for aid to the North that would be used to compensate the 88 companies now operating at KIC. The inter-Korean assistance/project account has over USD 1 billion in unused funds.

¶3. (C) Yu said that if KIC closes, it will not be because of a ROKG decision but because of DPRK internal reasons. He assessed that Pyongyang's recent steps to restrict access to KIC were related to its ongoing assessment of engagement policy as a whole, with increased anxiety about the "pollution effect" of ROK tourists and personnel coming into the DPRK, spreading rumors about Kim Jong-il's health. He described the current situation as a "psychological war," vowing that the ROKG would stay calm about the matter. The ROKG had earlier and repeatedly offered dialogue that would include due consideration of the October 2007 Summit Agreement, but could go no further because President Lee Myung-bak had pledged during his campaign that he would not be bound by that agreement, which he charged at the time was a ruse to influence the ROK presidential election.

¶4. (C) FM Yu said the DPRK had given mixed signals about KIC, with DPRK officials on site indicating they wanted economic cooperation projects to continue, and expressing surprise

when the ROKG began withdrawing personnel from KIC even before the December 1 deadline. Yu noted that were KIC to close completely, the DPRK would lose up to about USD 73 million per year (USD 150-170 in pay to each of the 35,000 DPRK workers). The DPRK to date had obtained USD 20 million from Kaesong City tourism since its inception one year ago (a USD 10 million initiation fee and about USD 10 million from daily tours since then). In addition, there were foregone earnings from the suspension of Mt. Kumgang tours. Yu thought the DPRK did not want to "kill the golden goose," but on the basis of its own internal calculations, the possibility existed.

15. (C) Asked about contacts with the DPRK following military-to-military meetings in October, Yu said that the outcome had not been fruitful. The ROKG had reiterated to the DPRK by letter that it was ready for dialogue and would install communications equipment in border areas. The DPRK had curtly replied by short letter that it was now fully aware of the ROKG's position, and then publicly announced that it would restrict cross-border traffic, leading to the restrictions on the KIC. Yu said nothing short of a pledge by President Lee that he would fully uphold the October 2007 Summit Agreement would satisfy the DPRK. President Lee, however, could not make such a statement, because he had made clear during his presidential campaign that he saw that agreement as an inappropriate ruse to influence the presidential election. Moreover, even initial implementation would cost at least USD 5 billion. In the meantime, there was no back channel between South and North, and there was nothing we (the ROKG) can do about KIC, because it is related to the DPRK's internal stability.

16. (C) Yu assessed that one of the DPRK's goals in placing restrictions on KIC was to create political divisions in the ROK body politic. This policy of nam-nam kal-dong was evident, Yu said, in progressive groups' December 2 protest against NGOs sending leaflets to the North, saying there was evidence some of these groups were instigated by the DPRK. He reiterated the ROKG would remain calm in the face of this "psychological war."

17. (C) Yu suggested that it would be useful for the USG to make clear to the DPRK that the rapidly deteriorating inter-Korean relations would damage the DPRK's overall international credibility, such as it is. He said it would be important for the DPRK to hear from the incoming U.S. administration that the U.S. would not allow the DPRK to pursue a policy of engagement with the U.S. while shutting out South Korea (Yu cited the oft-heard expression tong-mi; bong-nam).

18. (C) FM Yu reiterated his deep regret at not being able to travel to Washington for Strategic Consultations with Secretary Rice, citing the tense situation with the North and ongoing budget hearings at the National Assembly as the reasons. He also said that the ROKG still wants to pass the KORUS-FTA this year.

Minister of Unification on DPRK's Mixed Signals

19. (C) Minister of Unification Kim Ha-joong, in a December 5 meeting with the Ambassador, repeated Foreign Minister Yu's resolve that the ROKG would not compromise its principles to meet DPRK demands but would remain calm in the face of DPRK rhetoric and actions. Likening North-South dialogue and cooperation to an apple, Kim said the ROK was ready to eat the apple. He cautioned, however, that an apple harvested too soon would be sour. It is worth waiting, he said, for the apple to ripen.

20. (C) Kim said the ROKG has no official line of communication open with the DPRK and regularly declines offers from private South Korean citizens to serve as messengers. Kim said he has offered to meet DPRK officials "any time, any place" and that DPRK officials know how to

reach him or other ROKG officials. In the meantime, there is nothing for the ROKG to do but wait patiently for the DPRK's response to invitations to dialogue.

¶11. (C) Among other explanations for the DPRK's actions on Kaesong, Kim said the North Korean leadership might be putting pressure on the ROK in preparation for negotiations with the new U.S. administration. He emphasized the importance of the U.S. and ROK cooperating closely on an approach to the DPRK and not allowing the DPRK to ignore the ROK while moving forward with U.S.-DPRK bilateral cooperation. Kim said he appreciated the Ambassador's recent public comments reaffirming U.S.-ROK coordination on DPRK policy.

¶12. (C) Acknowledging the slim possibility that the DPRK could close KIC, Kim said he was confident that the DPRK would keep Kaesong open because of its financial benefits. Moreover, the DPRK does not have many cards left to play with the ROK and Kaesong is a big one, he said. Adding to Kim's confidence that Kaesong would remain open, on December 4 the DPRK made an additional 500 workers available to Kaesong companies, fulfilling a request from the companies who want to expand the current 35,000 labor force.

¶13. (C) Kim said the 88 factories in Kaesong, despite the loss of half the South Korean management, were operating smoothly. Eight companies, however, have experienced a reduction in orders due to the uncertainty of the situation. And some companies have requested the ROKG to extend the terms of government-backed loans, a request the ROKG is willing to consider. Another 45 factories are in the process of opening operations in Kaesong, and Kim said with a total of 133 factories the total labor force could exceed 70,000 by the end of 2009.

Comment

¶14. (C) Both FM Yu and MOUM Kim were on message with the ROKG's position that it remains firm in its "wait and see" mode of not making concessions to the DPRK and of demonstrating its readiness to live with a further downgrading of inter-Korean activities if the DPRK chooses that path.
STEPHENS